Introduction
CHAPTER I

INTRODUCTION

Business firms are existing in a world of rapid changes and extensive interactions which necessitated radical reforms especially in the field of financial management. Finance is said to be the circulatory system of an enterprise making possible the need for co-operation between diverse activities. It plays an extremely crucial role in the continuity and growth of the business.

The proper financing of an enterprise and the skilful management of its assets are crucial to the continued success of the firm.

Careful management of a firm's assets and financial resources is important for its success in a free market economy.


Financial management came to be considered as an integral part of general management rather than a staff speciality concerned only with administering sources of funds.  

The aim of financial management is to plan for, acquire and deploy funds in a way that maximizes the value of the firm. The management should place greater emphasis upon financial planning to secure and employ resources in the best possible manner. Financial planning helps management to avoid wastes by formulating various kinds of policies and procedures ensuring closer co-ordination among various functions of the business.

Financial management involves the allocation of funds within the firm and the acquisition of funds.  

The single objective in financial management is the maximisation of shareholder's wealth.


Financial management is concerned with all factors which affect the acquiring of adequate finance and its subsequent profitable use within a business.  

Finance bears the primary responsibility for worrying about how money should be spent and how much money should be raised.

The basis for financial planning and analysis is the financial information as contained in the financial statements. It is needed to predict, compare and evaluate the firm's earning ability. It is also required to aid in economic decision making-investment and financing decision making.

ANALYSIS OF FINANCIAL STATEMENTS:

Financial statements are the end-product of the financial accounting process. These financial statements which are also known as financial reports provide a rich information on the basis of which vital decisions are taken by all those interested, in the affairs of the business concern. On the basis of information contained in these statements, management may review company progress and decide upon the future course of action. Shareholders...


may appraise the prospects of their investment. Success is usually
judged by value. Shareholders are made better off by any decision
which increases the value of their stake in the firm. Creditors
may decide to extend, maintain or reduce the credit limits.
Employees may assess the firm's ability to pay higher salaries
or even bonus. Government may compute the tax liability based
on the income of the company and the general public may appraise
the effectiveness of the unit supplying goods or services to
them.

Financial statements of companies are essentially interim
reports. They are prepared for the purpose of presenting a period
ical review on the progress by the management and the results
achieved during the period under review. The financial statements
report what has actually happened to earnings and dividends over
the past few years. 10.

In the words of John J. Hampton, 'A financial Statement
is a collection of data organised according to logical and consist
ent accounting procedures. Its purpose is to convey an undertakin
of some financial aspects of a business firm. 11.

9. Richard Breakly and Stewart Myers, Principles of Corporate
Finance, McGraw-Hill International Book Company, Singapore,
1984, p.3.

10. Eugene F. Brigham, Fundamentals of Financial Management,
The Dryden Press, Holt, Rinhart and Winiton Saunders College

of India Private Limited, New Delhi, 1983, p.85.
According to Nafees Baig, Financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital of the business and the income statements showing the results achieved during a certain period.\textsuperscript{12}

W.B. Meig says, 'Financial statements are the instrument panel of a business enterprise. They constitute a report on managerial performance, attesting to managerial success or failure and flashing warning signals of impending difficulties.'\textsuperscript{13}

An essential link in the communication function is the preparation and issuance of financial statements. The two principal financial statements are the balance sheet and the income statement.

Balance sheet portrays the financial position at a particular moment of time. It contains information about the resources and obligations of a business entity and about its owner's interests in the business at a particular point of time.

\footnotesize{\textsuperscript{12} Nafees Baig, Problems on Managerial Accounting, Sterling Publishers Private Limited, New Delhi, 197, p.189.}

Income statement otherwise known as profit and loss account or revenue statement, presents the summary of revenues, expenses and net income or net loss of a business organisation for a period of time. It is an abstract portrayal of the dynamic life of the business presenting a longitudinal picture of the gains and losses of the business, its fortunes and misfortunes.

These two statements by themselves will not provide the required information for the interested parties such as investors, creditors, financial executives and public at large as they contain only consolidated data and do not provide any scope for decision making. Hence, there arises the need for analysis and interpretation of the financial statements.

MEANING AND SIGNIFICANCE OF FINANCIAL ANALYSIS:

An attempt to determine the significance and meaning of the financial data through analysis and interpretation provides a comprehensive understanding of the business operations and their impact on the financial health of the enterprise. Analysis and interpretation of financial statements therefore, refer to such a treatment of the information contained in the income statement and Balance sheet so as to afford full diagnosis of the profitability and financial soundness of the business.
According to J.N. Myers 'Financial statement analysis, is largely a study of relationship among the various factors in a business as disclosed by a single set of statements and a study of the trends of these factors as shown in a series of statements 14.

The analysis of financial statements consists of a study of relationships and trends to determine whether or not the financial position and results of operations and the financial progress of the company are satisfactory or unsatisfactory 15.

There are three steps involved in the financial statement analysis and they are selection, classification and interpretation. The first step involved refers to the selection of information relevant to the purpose of evaluation from the total of information contained in the financial statements. The second step involved is the classification or grouping of information in such a manner to focus on the significant relationships. The final step is the interpretation which includes drawing of inferences and conclusions 16.


OBJECTIVES OF FINANCIAL ANALYSIS:

The main object of financial statement analysis is to spotlight the significant facts and relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and creditworthiness that would have otherwise been buried in a maze of detail.

Financial statement analysis is a judgemental process which aims to evaluate the current and past financial positions and the result of operations of an enterprise. The primary objective is to determine the best possible estimates and predictions about the future. It also aims at formation of an opinion with respect to the financial positions of the enterprise relating to the status of that business in the economic world.

In short the analysis and interpretation aims at presenting a snap-shot of the financial progress of the business and represent the overall position of the business.

PROCESS OF ANALYSIS:

The process of analysing financial statements involves the compilation and study of financial and operating data and the preparation and interpretation of measuring devices such as ratios, trends and percentages. Various steps involved in the process are:

1. Reorganisation and rearrangement of the available data from the financial statements, that is segregating facts according to some definite plan.

2. Arrangement of the data into various groups according to certain characteristics.

3. Establishing significant relationship between the individual components of the financial statements or within the groups.

4. Interpreting and presenting them in a convenient and easily understandable form.

In short the process of financial performance analysis is the application of analytical tools and techniques to financial statements and data which are significant. It deals with the measuring changes in business, in terms of rupees or percentage.

STATEMENT OF THE PROBLEM:

Development of industries depend on several factors such as financial, personnel, technology, quality of the product and marketing. Out of these, financial aspect assumes a significant role determining the growth of industries. As the capital is scarce in our country, how far this scarce capital can be effectively utilised in our industries is again a debatable point.
South India Viscose Limited (SIVL) established in 1957, plays an important role in the industrial development in the Southern region of the country. SIVL is currently engaged in the manufacturing and marketing of rayon, wood pulp, rayon yarn and viscose staple fibre and industrial chemicals. Besides expanding its existing product lines, SIVL is now in the process of diversifying into number of areas such as oil field, chemical, seeds and agro products.

The company is performing efficiently for the last several years. The company has declared 45% dividend for the year 1989-90. It has achieved turnover of Rs.12 Crs during the year 1989-90.

In this context the researcher is interested in undertaking an analysis of the financial performance of SIVL to examine and to understand how the management of the company has played a crucial role in its growth. Hence, the present study entitled 'A STUDY OF THE FINANCIAL PERFORMANCE OF SOUTH INDIA VISCOSE LIMITED' has been undertaken by the researcher.

OBJECTIVES OF THE STUDY:

The main objectives of the present study are:
1. To examine the financial stability and overall performance of SIVL in general and to analyse and interpret the trends as revealed by various ratios of the company in particular.
2. To examine the profitability and solvency position of the unit with the existing tools of financial analysis.

3. To measure the extent of efficiency and performance of SIVL.

4. To analyse the sources and uses of funds of SIVL over a period of ten years i.e. 1981 to 1990.

5. To suggest measures for remedying the existing defects and deficiencies.

PERIOD OF STUDY:

The study covers a period of ten years i.e. from 1981 - 82 to 1989 - 90.

SOURCES OF DATA:

The study is based on the secondary sources of data. The required information for financial analysis had been derived from published annual reports of SIVL for the period under review.

TOOLS AND TECHNIQUES ADOPTED:

The study is concerned with the analysis of profitability, solvency and efficiency of SIVL through the analysis and interpretation of their financial statements. The techniques adopted
for analysing the data is ratio analysis as it facilitates the comparison of the unit in two different periods. Graphical representations of the various ratios have been made to give better understanding of the interpretations and also to project the future trends.

The study also analyses the changes in the financial position of SIVL. To study the manner in which the financial resources have been generated and deployed during the period under review, the techniques adopted is Fund Flow analysis.

LIMITATIONS:

The present study is subject to the following limitations:

1. The study is based only on the secondary data contained in the published annual reports of SIVL for the study period.

2. Due to the limited time available at the disposal of the researcher the study has been confined for a period of ten years only.

3. All the limitations of Ratio analysis and Fund flow analysis are equally applicable to the present study as well.

4. The annual reports of the company for the year 1979-80 gives financial information for fifteen months due to the change in the accounting year implemented. Hence the fund flow analysis is limited to a period of Nine years.
CHAPTERISATION:

The following is the organisation of the research study.

First Chapter deals with the objectives of the study, time period covered, collection of data, analysis of data and limitations of the study.

Second Chapter highlights the techniques of financial analysis and interpretation in detail.

The Profile of SIVL is outlined in the third Chapter.

Fourth Chapter focuses on analysing the profitability, solvency and efficiency of SIVL on the basis of important ratios and funds flow analysis.

Fifth Chapter ends up with the findings, suggestions and conclusions.